

## Appendix E: Incidence of Property Taxes and Fees of Takoma Park Residents Compared to Residents in Other Jurisdictions

The Committee conducted a comparative analysis of the tax burden of property taxes and fees borne by Takoma Park homeowners relative to those in other local jurisdictions. Since property taxes are deductible for Federal and State tax purposes, while fees are not, the relative burden depends not only on a homeowner's assessed value, but also on the household's income tax bracket.

Takoma Park demographics differ from those of Montgomery County as a whole. As Table 18 indicates, while Rockville is quite similar to the County overall in education and homeownership rates, median income and property values, Takoma Park is quite different. Homeownership is significantly lower, home values are somewhat lower, the poverty rate is higher, and median income is even lower than the statewide median (which includes non-metropolitan areas), despite the fact that educational attainment is relatively high. (This fact is consistent with the unique character of Takoma Park, which hosts a high percentage of activists and nonprofit organization workers). The Takoma Park population is also more ethnically diverse than the other jurisdictions.

**Table 18. Selected Demographic Indicators from the 2000 Census**

	Takoma Park	Rockville	Montgomery County	Maryland
Population	17,299	47,388	873,341	5,296,486
Households	6,893	17,247	324,565	1,980,859
Housing units	7,187	17,786	345,102	2,197,126
Home ownership rate	45.4 percent	67.7 percent	68.7 percent	67.7 percent
Median value	\$189,200	\$198,700	\$221,800	\$146,000
Median household income (dollars)	\$48,490	\$68,074	\$71,551	\$52,868
Poverty rate	10.3 percent	7.8 percent	5.4 percent	8.5 percent
Percent bachelors or higher	49.6 percent	52.9 percent	54.6 percent	31.4 percent
Percent white	48.9 percent	67.8 percent	64.8 percent	64.0 percent

In 1999, 87 percent of Takoma Park households reported earnings, for which the average was about \$65,000. Median family income was also roughly this amount. Fifteen percent of households received Social Security (SS); the combined mean income from SS, Supplemental Security Income (SSI), and retirement income totaled about \$35,000. We will use these averages to help characterize some “typical” households to compare tax burdens.

The focus of this distributional analysis is on homeowners. Homeowners bear a direct burden of the property taxes and fees. As residents, they also receive the benefits of the services funded. Assessing the burden on other types of residents and property owners is more complicated. Landlords pass on part of the tax burden to their tenants, but these indirect costs are harder to assess, in part due to Takoma Park rent control policies. Tenants also pass back benefits to landlords to some extent, as better services should make them willing to pay more to access them, but this effect is also hard to quantify.

Businesses pay additional personal and special property taxes, but they also receive a different class of services than a typical homeowner.

We calculated the local tax burden for different stylized households, taking the value of Federal and State tax deductions into account. These adjustments are important, since property taxes are deductible. These deductions lower the effective cost of property taxes, and they have greater values for those in higher tax brackets. Still, property taxes remain relatively progressive, since higher income people tend to own more valuable houses. However, lower income owners of high value homes (due to retirement, divorce, etc.) are the exception, and they can pay more than high-income owners. In these cases, the Homeowner Tax Credit offers some relief.

The State of Maryland limits the property tax paid by low income residents on the first \$150,000 of assessed value, offering a credit equal to the difference between the actual tax paid and the maximum levy. The amount of the maximum increases with income, and the tax credit phases out at an income of about \$40,000. Takoma Park offers a matching credit, which was just raised 30 percent of the state credit. Montgomery County also has a supplement, but at this time, we have not identified the amount. In Takoma Park, the Homeowner Tax Credit affects roughly four percent of homes. (By contrast, more homeowners are currently affected by the Homestead Tax Credit, which limits assessment growth to 10 percent).

Finally, we note that fees are not deductible; furthermore, since they do not tend to vary with income, they are regressive forms of taxation. Montgomery County relies more heavily on fees than does Takoma Park.

We compared four stylized homeowners, as portrayed in Table 19: a low-income single; a retired couple with average income for Takoma Park; a median income family; and a high-income family. We then compare their tax payments according to the value of the home they own: \$150K, \$300K, \$500K, or \$800K. We acknowledge that homes of comparable value in other jurisdictions may have different characteristics, just as other jurisdictions have different qualities of services. This exercise emphasizes the tax side of a household’s potential location decision; in comparing jurisdictions, households with given income and home asset values would consider not only the tax payments, but also the relative services provided.

**Table 19. Four Stylized Takoma Park Homeowners**

TAXPAYER PROFILES		FEDERAL + STATE	PROPERTY TAX LIMIT
	Income	tax bracket	on 1st \$150K
LOW INCOME SINGLE	20000	23.53 percent	840
RETIREE COUPLE	35000	23.53 percent	2190
MEDIAN FAMILY	65000	33.53 percent	N.A.
HIGH INCOME FAMILY	200000	41.53 percent	N.A.

We considered four jurisdictions: Takoma Park, unincorporated Silver Spring, Rockville, and Hyattsville. Table 21 and Table 22 present the tax and fee rates, respectively. Takoma Park has the highest property tax rates and the lowest fees.

**Table 20. Real Property Taxes per \$100,000 of Assessed Value**

JURISDICTION	COUNTY	MUNICIPAL	SPECIAL AREA TAX	STATE	TOTAL
Takoma Park	0.734	0.660	0.272	0.132	1.798
Silver Spring (uninc)	0.734	0.000	0.275	0.132	1.141
Rockville	0.734	0.322	0.168	0.132	1.356
Hyattsville	0.806	0.580	<sup>30</sup>	0.132	1.518

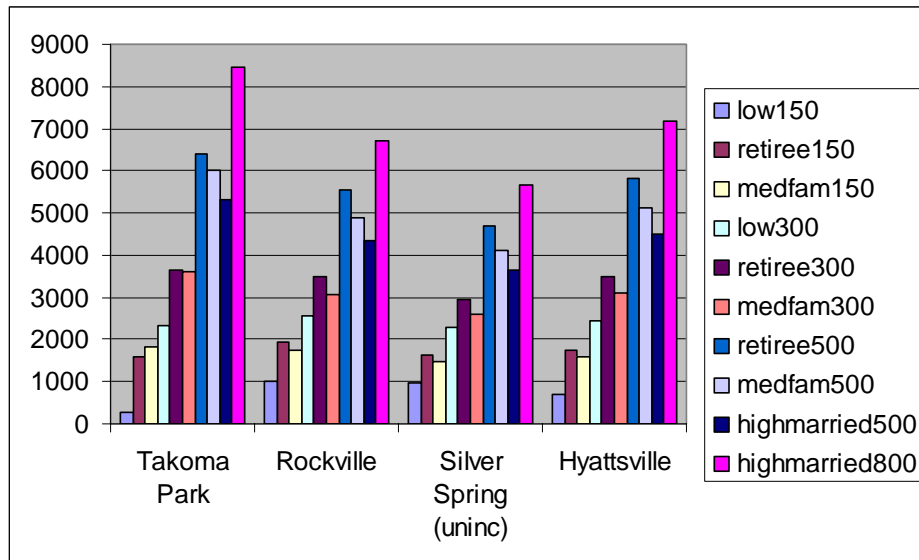
**Table 21. County and Municipal Fees by Jurisdiction**

JURISDICTION	SANITATION	STORMWATER & SEWER	TOTAL
Takoma Park	40	28	68
Silver Spring (uninc)	323	13	336
Rockville	376	13	389
Hyattsville <sup>31</sup>	70		70

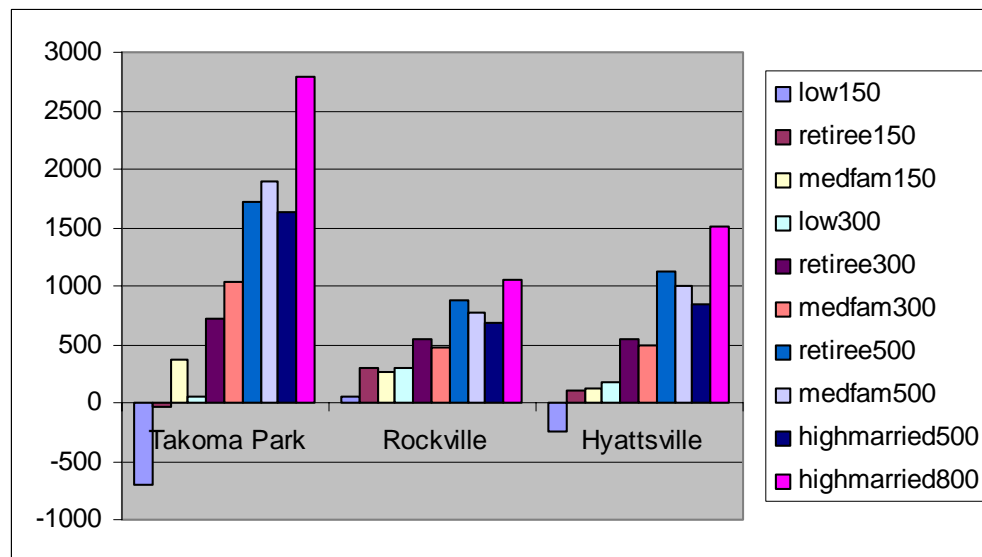
<sup>30</sup> In Prince George's County, the special area taxes are included in the county tax. The county tax also reflects a municipal tax offset to Hyattsville.

<sup>31</sup> These fees may not be comprehensive, as Prince George's County information was less readily accessible.

**Figure 3: Total Property Tax and Fees, after Deductions, by Jurisdiction and Household Type**



**Figure 4: Effective Tax Burdens Relative to Unincorporated Silver Spring**



From these graphs, we see that Takoma Park revenue mechanisms are more progressive than those of other jurisdictions, primarily because of less reliance on fees and more reliance on property taxes. Low-income owners of modest houses fare better or the same in Takoma Park, in large part due to the matching of the Homeowner Tax Credit. Above an assessed value of \$300K, however, differences begin to exceed \$500 per year for a median family, compared to other incorporated municipalities (and much more compared to unincorporated Silver Spring). For homes with an assessed

value above \$600K, high-income owners pay over \$1000 per year more living in Takoma Park, even after their higher-value deductions.

**Sources:**

US Census. <http://quickfacts.census.gov/qfd/states/24/24031.html>

Montgomery County (for tax rates and solid waste service charges),

<http://www.montgomerycountymd.gov/govtmpl.asp?url=/content/finance/CountyTaxes/Infopercen20Taxes/financial.ASP>

Homeowner Tax Credit

<http://207.176.67.2/clerk/agenda/items/2004/092704-5.pdf>

<http://www.dat.state.md.us/sdatweb/htc.html>

IRS and The Federation of Tax Administrators (for tax brackets).

PG County municipal tax differentials

<http://www.aoba-metro.org/resourcecenter/reports/MD2005CountyTaxRates.htm>

Maryland Municipal League

<http://www.mdmunicipal.org/research/topten.cfm>